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Getting to 2025: Can California Meet the Challenges?

There is a growing consensus in some quarters that rapid population growth and repeated budget shortfalls have brought California to a state of disrepair that bodes ill for the Golden State. Two years ago, with support from the William and Flora Hewlett Foundation, PPIC undertook a large, multidisciplinary research study to consider whether the state is facing a growth and infrastructure crisis, the dimensions of the potential problem, and how best to think about planning for the future. It focused on three elements of infrastructure—schools, water systems, and roads and transportation systems. These are the areas in which California undertook the large public projects of the mid-20th century, and they continue to dominate public investment today. The study's findings are reported in *California 2025: Taking on the Future*, a multi-authored volume edited by Ellen Hanak and Mark Baldassare.

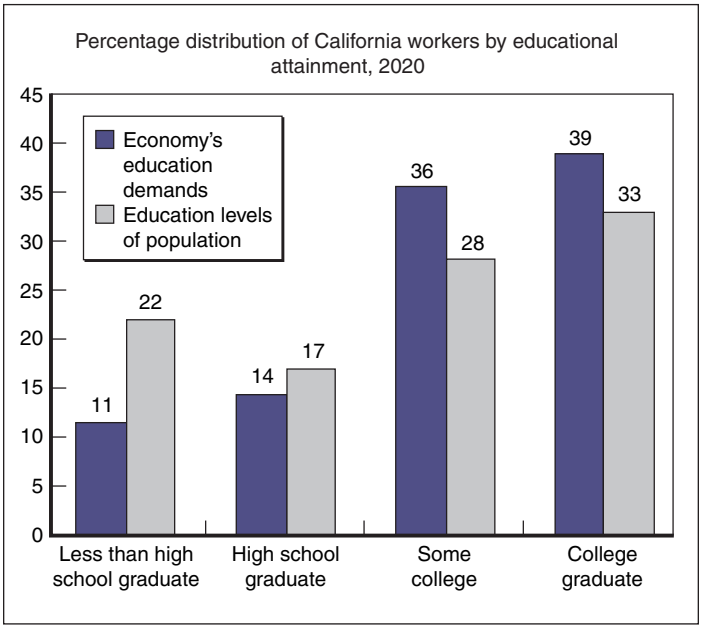
Some of the findings support those with serious concerns about the state's future. However, the report also points to signs of progress in planning for and funding infrastructure, as well as population and economic trends, that will ease growth in demand for public facilities. Nevertheless, California faces the future without a clear mandate on how much or how to raise funds to accommodate predicted population growth. Also important is a "human infrastructure" challenge—a growing need for college-educated workers in the state's changing economy and a likely shortfall in highly educated adults in the fastest-growing population groups.

The report looks at the following critical topics.

Population and Economic Growth

A study led by Hans P. Johnson projects a population growth range of 7 million to 11 million between now and 2025, with a higher percentage of growth inland than in coastal areas. This uneven growth could be problematical because infrastructure systems in some inland areas are nonexistent or much less developed. The state will also continue its transition from a white majority to a majority-minority state. Latinos are projected to become the largest racial/ethnic group in the state within a decade and will eventually reach majority status. The population will also continue to age: By 2025, one in seven Californians will be over age 65.

These demographic shifts raise special concerns about how prepared the state is to provide economic and other opportunities for nonwhite and immigrant populations. Young Latinos have lower levels of schooling than the white, baby-boom population that makes up a large share of the college-educated workforce. Thus, how will they fare in the future labor market?



If current patterns persist, the California economy will require more highly educated workers than the state may be able to provide.

Concerns about the educational attainment of nonwhite and immigrant populations are underlined by projections of economic growth. David Neumark projects that employment will grow by 30 to 40 percent in the next 20 years. His analysis also indicates a continuing decline in the share of manufacturing employment and a steady rise in the share employed in services—particularly business, professional, entertainment, recreation, health, and educational services. These services industries are less intensive users of water, roads, and energy than the declining manufacturing sector. However, they will put greater pressure on education because they require a more educated workforce. Demand for workers with a high school education or less will fall and demand for those with associate, bachelor's, and advanced college degrees will rise.

These economic changes underscore the key challenge facing the state. As the fastest-growing population group, Latinos will make up an increasing share of the workforce and they are a group that now has lower levels of education. In the coming decades, if California's youth do not get a college education, they face the prospect of low or no employment, lack of opportunities for high-paying jobs, and greater likelihood of depending on public health and social services. They will also generate lower tax revenues for supporting the state's infrastructure and other services needs.

Infrastructure Financing, Needs, and Tradeoffs

To address the question of paying for infrastructure, PPIC researchers Kim Rueben and Shelley de Alth looked at how much California's state and local governments have been spending on infrastructure and where they are finding the funds. They conclude that although the real per capita spending on public infrastructure investments declined precipitously in the 1970s and 1980s, by the early 1990s it recovered to the levels of the early 1960s, California's "golden era" of public investment. California now spends about the same per person on infrastructure as the nation.

Nevertheless, these overall spending trends mask important differences across the three infrastructure sectors. California has always spent more than the national average on water resources. In education, with the success of recent state and local bond initiatives, the state has again caught up with the national average. However, transportation is a different story. Once a national leader in road and highway investments, California now invests considerably less than the national average on transportation facilities and spends considerably more on maintenance.

There are also troubling trends in how the state pays the bills for these investments. Federal funds for infrastructure have been declining, and "pay-as-you-go" financing has become less common. The state now relies heavily on borrowing through long-term general obligation bonds. As a result, the portion of general fund revenues devoted to interest and principal payments on debt is approaching levels that jeopardize the state's remaining debt capacity. In this context, local revenue sources have become more important. However, local governments' ability to raise infrastructure funds has been constrained by various rules regarding voting requirements for passing bond and sales tax measures.

The difficulty of funding infrastructure inevitably brings up the question of how much the state actually needs and will need to meet the challenges of the future. Ellen Hanak and Elisa Barbour look at these questions. For education, although recent state and local bonds have gone a long way toward funding facilities backlogs, the bigger challenge is meeting the operational costs.

For higher education, the need for a more skilled workforce makes the potential shortfall in operating budgets critical. Hanak and Barbour suggest that the state will have to consider measures such as higher fees for students who can afford to pay and the relative roles of lower-cost community colleges and the four-year and graduate institutions in the state's higher-education system.

For water, the authors argue that California is actually well-positioned to meet the water-supply challenges of growth through options to use existing resources more efficiently and to increase nontraditional supply sources, such as recycling. For transportation, the challenges are more formidable. The state has been spending less than in the past, and various factors now in place mean that transportation dollars do not buy as much as they once did. Hanak and Barbour argue that, given the costs, building "enough" road capacity to, for example, eliminate congestion would not be a good use of highway funds. Instead, they suggest the use of demand management through user fees and other means, in combination with technologies to enhance use of road networks.

Governance and Other Challenges for Infrastructure Planning

Besides the challenges discussed above, the state faces a very different policy planning context than it did in the mid-20th century. Paul G. Lewis and Elisa Barbour provide a comprehensive critique of how the processes of planning, approving, and funding infrastructure projects impede progress in improving the state's infrastructure systems. They point to the greater difficulty today in reaching consensus for dealing with challenges, the proliferation and influence of interest groups, and impediments to transferring more funding and planning authority from the state to regional agencies and local governments, among other things.

Manuel Pastor and Deborah Reed take a comprehensive look at the equity issues for future planning. They point out that although state law in 2002 defined promoting equity as one purpose of infrastructure planning, educational facilities, water supply and quality, and transportation infrastructure have not been equally distributed across communities. The authors examine equity issues in the transportation, K–12 facilities, and water sectors from the perspective of three rationales for equitable infrastructure investment: First, such investment may create opportunities for communities that have been left behind by California's economic growth. Second, it may promote broader economic growth in a more cost-effective manner. Third, it may help build the political consensus for large public projects.

One way or another, public perceptions and attitudes intensify most of the planning challenges because of the role voters have increasingly come to play in passing state and local funding measures and approving governance reforms. To assess public attitudes and will, Mark Baldassare and Jonathan Cohen describe the results of a 2004 PPIC Statewide Survey on Californians and the Future. They find a constituency largely unaware of how much the population will grow and very unhappy about it when told. Most think that the growth will be bad for them and their families, that the state and their own regions will be worse places to live in 2025, and that their regional economies will be in worse shape.

To plan for a better future, most believe that the focus should be on jobs and the economy and improvements in roads, school facilities, and water systems. However, in all infrastructure areas, most prefer using existing facilities more efficiently to spending more on large-scale projects. Consistent with that preference, Californians are very resistant to raising taxes for building, even though most believe that their governments do not have adequate funding for roads, school facilities, and other infrastructure projects.

These attitudes reflect public belief that government is so wasteful that it could actually provide the same level of services with fewer resources. That belief may explain the apparent paradox that, despite their anti-tax sentiments, Californians would be willing to support some tax increases and bond measures for transportation and school facilities. The proviso is that their money be put to appropriate uses and that governance systems be in place to make public officials accountable for spending decisions. Finally, Californians also believe that voters should be making the important decisions for the future at the ballot box, reflecting their deep distrust and lack of confidence in state and local governments' ability to plan for future growth.

The report concludes that a major task ahead is finding a way to restore the public's trust and confidence in government. It suggests that the solution may lie in political, governance, institutional, and fiscal reforms that make government actions more transparent, accountable, efficient, and responsive to the people they serve. In the California system of public finance, much will depend on voters' willingness to raise taxes or pay higher user fees. The public acceptance of policies that promote socioeconomic progress in low-income and minority communities will also be critical in determining the state's future.

This research brief summarizes a report edited by Ellen Hanak and Mark Baldassare, California 2025: Taking on the Future *(2005, 316 pp., $25.00, ISBN 1-58213-110-4). The report may be ordered online at www.ppic.org or by phone at (800) 232-5343 or (415) 291-4400 [outside mainland U.S.]. A copy of the full text is also available at www.ppic.org. The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, objective, nonpartisan research on economic, social, and political issues affecting California. This study was supported with funding from the William and Flora Hewlett Foundation.*

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